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101ST CONGRESS
2d Session

SENATE

REPORT
101-438

GROSS INTEREST LEGISLATION ACT

REPORT

OF THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

TO ACCOMPANY

S. 3011

together with

MINORITY VIEWS

To amend the Congressional Budget Act to create a functional category for gross interest on the public debt

AUGUST 30, 1990.—Ordered to be printed

Filed under authority of the order of the Senate of August 2 (legislative day, July 10), 1990

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GROSS INTEREST LEGISLATION ACT

AUGUST 30, 1990.—Ordered to be printed

Filed under authority of the order of the Senate of August 2 (legislative day, July 10), 1990

Mr. SASSER, from the Committee on the Budget, submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany S. 3011]

The Committee on the Budget submits the following report, accompanying S. 3011.

[S. 3011, 101st Cong., 2d Sess.]

A BILL To amend the Congressional Budget Act to create a functional category for gross interest on public debt

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CREATING A FUNCTION CATEGORY FOR GROSS INTEREST ON THE PUBLIC DEBT.—(a) Section 301(a) of the Congressional Budget Act of 1974 is amended—(1) in paragraph (4), by striking the word "and" at the end thereof; and (2) by inserting the following new paragraphs: "(6) a major functional category setting forth gross interest on the pubic debt; and (7) a major functional category setting forth undistributed offsetting receipts, which functional category shall include interest receipts of trust funds.".

I. SUMMARY OF THE LEGISLATION

On the motion of Senator Paul Simon, by a vote of 20 to 2, the Committee on the Budget ordered reported an original bill, called the "Gross Interest Legislation Act", which amends the Congres-

sional Budget Act of 1974,[1] to create a functional category that reports gross interest on the public debt.

II. Need for Legislation

Function 900 in the annual Concurrent Budget Resolution displays net interest. "Net" [2] interest includes interest on the public debt after deducting the amount of interest received by the on-budget and Social Security trust funds. This legislation would create a permanent functional category to display "gross" [3] interest on the public debt, thereby providing another measure of fiscal burden of deficit spending. The legislation also mandates that interest received by the trust funds be included in undistributed offsetting receipts.

III. Legislative History

Net interest was one of the fastest-growing spending categories in the 1980s. 1+ continues to climb in budget baseline projections as the government continues to borrow to finance its deficit and to refinance its existing debt. Net interest primarily reflects the government's payments to holders of its debt. As an offset, it also reflects interest received by the government on loans and cash balances. The following chart depicts gross and net interest in the 1980s.[4]

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[1] Congressional Budget and Impoundment Control Act of 1974, Pub. L. No. 93-344, 88 Stat. 297 (July 12, 1974) (codified as amended at 2 U.S.C. §601-688) [hereinafter the Congressional Budget Act].

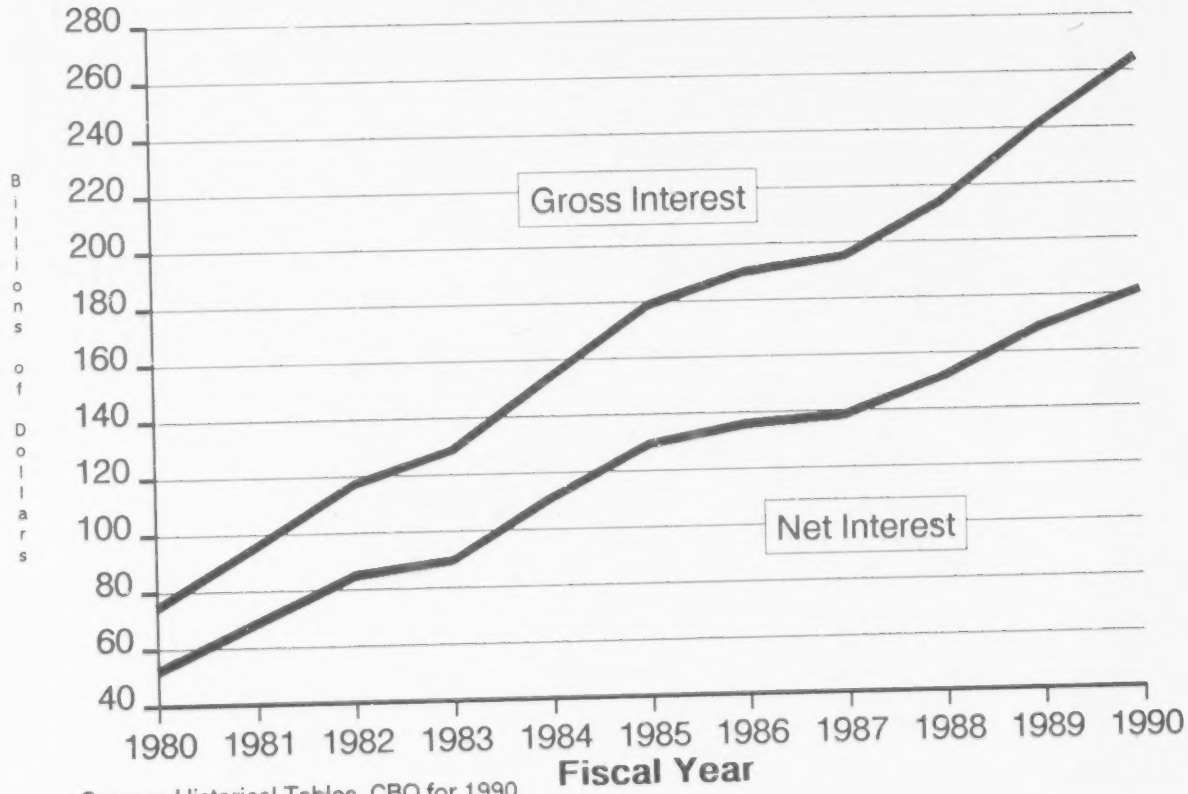
[2] "Net" is defined as the value of a sum or a transaction after a reduction of the total value by related applicable offset. See Report of the President's Commission on Budget Concepts 109 (Oct. 1967) at 99, [hereinafter the Commission].

[3] "Gross" is defined as the total value of a sum or a transaction, before reduction by applicable offsets. THE COMMISSION, at 98.

[4] Historical Tables, Congressional Budget Office (CBO) for 1990.

Gross and Net Interest in the 1980s

(Outlays in billions)



Source: Historical Tables, CBO for 1990

Net interest will grow by about 7 percent between 1989 and 1990. Annual growth tapers off thereafter according to interest rate forecasts made by the Office of Management and Budget. After this year OMB projects that long-term interest rates will begin a gradual decline, falling by 1995 to about one-half percentage point below their current levels. However, if interest rates remained at today's levels—as is plausible if the deficit is not reduced further—net interest costs will be about $15 billion higher in 1995 than currently projected.

Gross interest costs refect the Treasury's cost of financing the entire, or gross, public debt. Most of the gross debt is held by the public, predominantly in the form of marketable securities sold at auction to finance the government's deficits and to refinance its maturing securities. But because part of the gross debt is held by trust funds, the government simultaneously pays and collects some of this gross interest.

In 1991, approximately $72 billion in interest expenditures will be paid to the trust funds. Interest payments to the trust funds will rise to $111 billion in 1995. This legislation would reformulate the budgetary reporting of interest costs and focus greater attention on consequences of borrowing from the trust funds to finance current spending needs.

IV. Rollcall Vote in Committee

Senator Simon moved that the Committee report the Gross Interest Legislation Act.

The Committee agreed to the Simon motion to report the Gross Interest Legislation Act by a vote of 20 Yeas to 2 Nays:

YEAS	NAYS
Mr. Sasser	Mr. Domenici*
Mr. Hollings	Mr. Boschwitz*
Mr. Johnston*	
Mr. Riegle*	
Mr. Exon	
Mr. Lautenberg	
Mr. Simon	
Mr. Sanford	
Mr. Wirth	
Mr. Fowler*	
Mr. Conrad	
Mr. Dodd*	
Mr. Robb	
Mr. Armstrong	
Mr. Symms	
Mr. Grassley	
Mr. Kasten	
Mr. Nickles	
Mr. Rudman*	
Mr. Bond	

*This vote was by proxy.

V. Joint Referral Under the Standing Order

The Committee on the Budget has jurisdiction over the matter in the Gross Interest Legislation Act by virtue of the standing order on the referral of budget-process legislation which the Senate entered into on August 4, 1977. Upon the reporting of the Act, the Presiding Officer will refer it to the Committee on Governmental Affairs pursuant to the standing order, with instructions that the Committee on Governmental Affairs shall have 30 days to report or be discharged.

VI. Regulatory Impact

Paragraph 11(b)(1) of rule XXVI of the Standing Rules of the Senate requires that each report accompanying a bill evaluate "the regulatory impact which would be incurred in carrying out the bill".[5] The enactment of this legislation would not have significant regulatory impact.

VII. Cost Estimate

U.S. Congress,
Congressional Budget Office,
Washington, DC, August 3, 1990.

Hon. Jim Sasser,
Chairman, Committee on the Budget,
U.S. Senate, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has reviewed a bill to amend the Congressional Budget Act to create a budget function category for gross interest on the public debt, as ordered reported by the Senate Committee on the Budget, July 25, 1990. Because the bill would rearrange the presentation of the federal budget, we estimate that it would result in no significant cost to the federal government, and in no cost to state and local governments.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is James Hearn, who can be reached at 226-2860.

Sincerely,

Robert D. Reischauer,
Director.

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[5] Standing Rules of the Senate Rule XXVI(11)(b)(1) (1990).

VIII. MINORITY VIEWS OF MR. DOMENICI

I voted against Senator Simon's legislation to create a new functional category to display gross interest on the public debt. Senator Simon argued that the current net treatment of interest conceals important information. I disagree.

Our troubles with the budget process are not due to an understatement of the level of interest in the budget. The current presentation of the net interest function follows directly from conclusions reached by the 1967 Commission on Budget Concepts. After extensively examining the issue, the Commission concluded that "budget receipts and expenditures should be prepared on a consistent and on a fairly net basis." The Commission also concluded that additional information on gross transactions be included in the budget document—just like it is now, for interest and other government programs. No one is hiding anything.

Furthermore, it is CBO's position that gross interest costs are not the best measure of government borrowing costs because some of the existing public debt generates interest income for the government. Twenty-five percent of the total public debt is held by the federal government itself, mostly by trust funds such as social security and federal civilian and military retirement. The government, therefore, both pays and collects the interest on these securities.

In addition, some of the money borrowed by the federal government is lent to participants in federal credit programs. These activities also result in interest income to the government itself. CBO has expressed its position more than once on this matter: "Net interest reflects both the interest paid and interest earned by the government, giving a truer measure of federal borrowing costs."

Interest expenditures are not the only item in the budget that are netted out. A total of $154 billion in offsetting collections are deducted from total budget authority and outlay levels across all the functions in the budget. If we do indeed decide the budget should display only gross levels of interest expenditures, we should develop a uniform approach to show gross expenditures for all the budget functions.

PETE V. DOMENICI.

IX. Changes in Existing Law

Pursuant to paragraph 12 of rule XXVI of the Standing Rules of the Senate, this section displays changes to existing law made by the Act. Existing law that the Act would strike appears in black brackets, new material appears in italic type, and existing law to which the Act makes no change appears in roman type.

Congressional Budget Act of 1974

Section 301(a)

* * * * * * *

(4) new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments for each major functional category, based on allocations of the total levels set forth pursuant to paragraph (1); [and]

(5) the public debt[.];

(6) a major functional category setting forth gross interest on the public debt; and

(7) a major functional category setting forth undistributed offsetting receipts, which functional category shall include interest receipts of trust funds.

* * * * * * *

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